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THE ALBERTA GAS TRUNK LINE COMPANY LIMITED

AUGUST 17, 1970

DOMINION SECURITIES CORPORATION LIMITED

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Institutional Study

R. J. Foster

August 17, 1970

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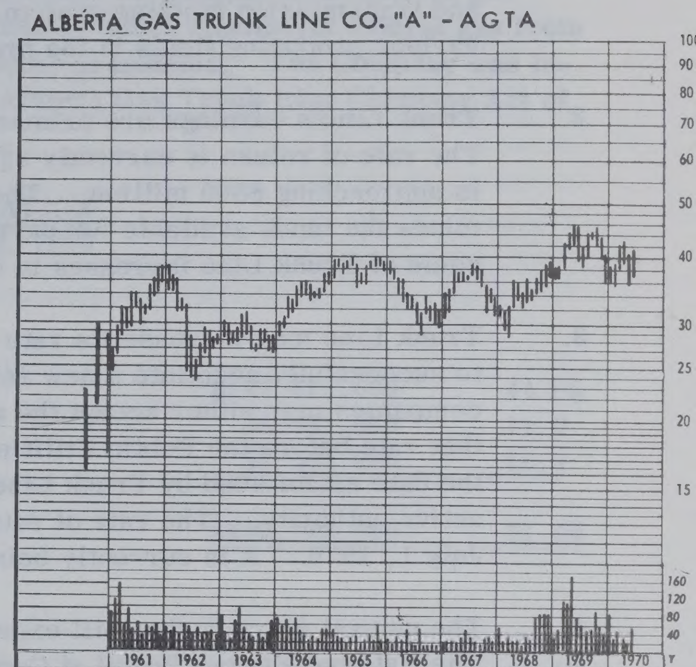


Common Class 'A'

Price, Aug. 12, 1970	$ $43\frac{7}{8}$
Earnings per Share 1969	$ 2.47
Price/Earnings Ratio 1969 EPS	17.7x
Dividend	$ 1.50
Yield	3.42%

Convertible Preferred, Series D

Price, Aug. 12, 1970	$122.00
Dividend	$ 5.375
Yield	4.42%

Conversion basis - 2.80 Class 'A' common shares for each preferred share Series D

Current premium over conversion price	0.69%

Convertible Debentures, Series 1

Price, Aug. 12, 1970	$1,140.00
Coupon	7.5%
Yield	6.6%

Conversion basis - 25 Class 'A' common shares per $1,000 principal amount of Series 1 Debentures

Current premium over conversion price	3.93%

(Chart courtesy of Graphoscope)

SUMMARY AND CONCLUSIONS

1. Alberta Gas Trunk Line owns and operates the largest main natural gas gathering and transmission pipeline system in Alberta, which transports natural gas from various producing fields in the province for customer companies.

2. Trunk Line's earnings are primarily derived from a rate of return on rate base. The rate of return is currently $8\frac{3}{4}\%$ (presently being contested) and the rate base is approaching $300 million. The dollar result of this calculation largely determines the funds available for payment of interest and dividend. The gross income of Trunk Line increases in direct proporation to the additions to net plant.

3. Trunk Line may increase its rate of return at its own discretion. If it is unable to successfully negotiate a new rate with the customer companies, the customer companies may either accept the new rate established by Trunk Line or appeal that rate before the Public Utilities Board of Alberta. The rate is in effect from the date established by Trunk Line, however, the Public Utilities Board has retroactive authority. The rate of return was established by Trunk Line at $8\frac{3}{4}\%$ on July 1, 1970. It is currently being contested.

4. The natural gas industry will experience dramatic growth over the next 20 years. The National Energy Board of Canada has suggested that this growth could approach 9% per year. To provide the facilities to meet this rapid growth in demand Trunk Line will be increasing its net plant by nearly $200 million over the next three years.

5. Trunk Line is one of the three groups of companies proposing to build a gas transmission pipeline to Prudhoe Bay in Alaska. We believe Trunk Line has a number of substantial advantages over its competitors.

6. Trunk Line has recently initiated a diversification programme through an investment in International Portable Pipe Mills Ltd. This company is to manufacture large diameter oil and gas pipeline.

7. We estimate that under varying sets of conditions Trunk Line will experience a positive rate of growth in earnings per share (see Appendix A). Investment in the Company is recommended.

RECOMMENDATION

Trunk Line offers investors (a) a unique opportunity to participate in the dramatic growth of the natural gas industry, (b) a strong management team and (c) a high probability of participation in the proposed gas transmission pipeline to the North Slope. In addition, Trunk Line may be viewed as an interest rate sensitive stock.

We recommend the purchase of the equity of Alberta Gas Trunk Line. We prefer the higher yielding convertible instruments (at little or no premium) to the Class 'A' common at current levels.

THE COMPANY

Alberta Gas Trunk Line owns and operates the largest main natural gas gathering and transmission pipeline system in Alberta, which transports natural gas from various producing fields in the province for customer companies. The Company was incorporated in the Province of Alberta under The Alberta Gas Trunk Line Company Act of 1954.

CAPITALIZATION
as at June 30, 1970

Funded Obligations		
First Mortgage Bonds	$147,611,000	44.1%
Secured Debentures	36,661,000	11.0
Unsecured Debentures	55,000,000	16.4
Total Funded Obligations	$239,272,000	71.5%
Shareholders' Equity		
Preferred Shares	$ 43,750,000	13.1%
Common Shares		
Class 'A' (3,329,654 outstanding)	16,648,000	4.9%
Class 'B' (1,771 outstanding)	8,855	-
Contributed Surplus	14,995,000	4.5
Contributions and Grants	223,000	0.1
Retained Earnings	19,703,000	5.9
Total Common Shares, Contributed Surplus and Retained Earnings	$ 51,577,855	15.4%
Total Shareholders' Equity	$ 95,327,855	28.5%
Total Capitalization	$334,599,855	100.0%

Capitalization

Trunk Line has agreed, under one of its trust indenture covenants, that its debt equity ratio will not exceed 3:1. This highly leveraged situation reduces the potential tax liability of Trunk Line, a liability which is the responsibility of customer companies. (See Taxation).

Equity Structure and Board of Directors

Trunk Line has Class 'A' and Class 'B' common shares outstanding. The 'A' shares have no voting rights and are held by the investing public. The Class 'B' shares have voting rights and are held by certain classes of interested parties and are broken down by groups. Utility companies holding Class 'B' common, Group I shares may elect one director to the Board of Directors of Trunk Line, gas export companies holding Class 'B' common, Group II shares may elect one director and gas producers holding Class 'B' common, Group III shares may elect three directors. The other two directors of the board are appointed by the Lieutenant Governor-in-Council of the Province of Alberta and, as holders of Class 'B' common Group IV shares, these directors have full voting rights.

THE RATE BASE AND RATE OF RETURN

Two parameters are essential to the regulation of utilities. These are (a) the rate base or the assets used in the business and (b) the rate of return on the rate base. Together, these two parameters largely determine the amounts available for payment of interest and dividends.

In Trunk Line's case, the precise definition of the rate base is negotiated with the customer companies, and can be loosely defined as "depreciated gas plant in service" plus working capital. Trunk Line's contracts with its customer companies provide that the customer companies reimburse Trunk Line on a "cost of service" basis for its operating expenses, depreciation, income taxes and other taxes together with an annual return on its investment (the rate base). This return is currently $8\frac{3}{4}\%$. Depreciation of the gas plant in service has been provided in an amount equal to the depreciation reimbursed by the customer companies ($2\frac{1}{2}\%$ per annum, straight-line).

Trunk Line's operating revenue as reported may be viewed as being comprised of three principal components: (a) the dollar return on the rate base as determined by applying the negotiated allowable return to the rate base; (b) depreciation and (c) operating expenses and taxes. The last two items are reimbursed to Trunk Line by its customer companies. These operating expenses, depreciation and taxes are later subtracted out in the income statement, leaving the dollar return on rate base. With the exception of relatively minor overhead expenses, this latter amount is available for the payment of interest and dividends.

Trunk Line has in the past negotiated a rate increase with its customer companies. Should these negotiations fail to reach a satisfactory conclusion, Trunk Line may, at its own discretion, establish a new rate without consultation. The customer companies have the option of either accepting the new rate of return or filing an objection in writing with the Public Utilities Board of Alberta who then conduct a hearing to determine the justness and reasonableness of the new rate. It should be noted that any interested party or the Lieutenant Govenor-in-Council may direct the Public Utilities Board of Alberta to convene such a hearing.

In March 1970, Trunk Line submitted a proposed rate of return increase to its customer companies. The Company was unable to successfully negotiate a new rate of return and announced on June 26, 1970, a new rate of return of $8\frac{3}{4}\%$ effective July 1, 1970,

as compared with the previous rate of 8%. Trunk Line stated: "This increase is necessary because of the higher costs for funds to install new pipeline facilities. Since the beginning of 1970, the Company has raised $103 million in the form of long term debt. This amount was realized from the sale of $35 million $7\frac{1}{2}\%$ convertible debentures, $48 million $8\frac{3}{4}\%$ bonds and $20 million $9\frac{3}{4}\%$ debentures. These debt securities have caused the average interest rate on the Company's long term debt to increase from 6% in 1969 to 7.1% in 1970".

This is the first time in Trunk Line's history that it has increased the rate of return at its own discretion. Trans-Canada Pipe Lines Ltd. has stated that it will appeal the rate increase. Trans-Canada may be joined by other customer companies, although they have made no announcements to this date.

In our judgement, Trunk Line will be able to effectively demonstrate the need for an increase in the rate of return, particularly in regard to debt coverages. We do not, however, wish to speculate on the exact increase that may be confirmed by the Public Utilities Board of Alberta.

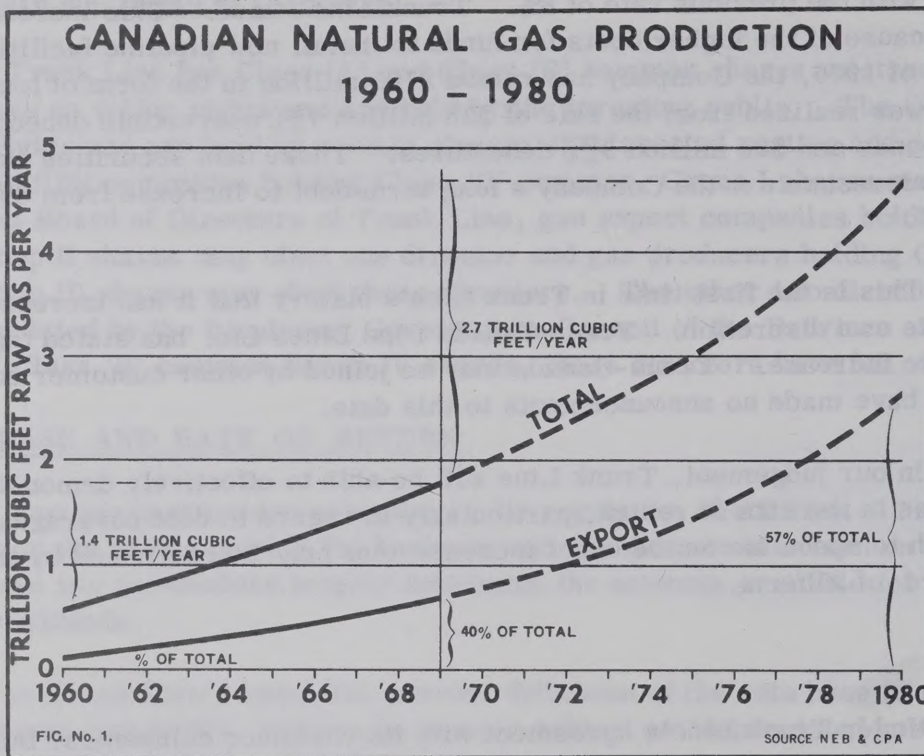
TAXATION

Under Trunk Line's agreement with its customer companies, the customer companies are required to pay Trunk Line's income taxes as they relate to the transportation of their gas. Consequently, the customer companies are anxious for Trunk Line to avoid a taxable position on gas transportation services since it would greatly increase their cost of service. Under the agreement, there would be no reduction in the earnings per share should the Company move into a taxable position. The current rate of capital expansion will allow the Company to avoid a taxable position for the foreseeable future.

This agreement relates to taxes incurred on the transportation of gas only. Up until the present time all revenue has been related to the transportation of this gas however, with Trunk Line's diversification, other revenue sources will be introduced. The customer companies will have no responsibility for taxes incurred in other areas.

THE NATURAL GAS INDUSTRY

The National Energy Board has forecast that production of Canadian natural gas will rise from slightly less than 2 trillion cu. ft. in 1970 to 3 trillion cu. ft. in 1975 and 4.7 trillion cu. ft. in 1980. This represents an average annual growth rate of just under 9%. Graph 1 was taken from a recent speech given by Mr. A. E. Barroll of Mobil Oil Canada Ltd. The graph is based on data obtained from the National Energy Board and the Canadian Petroleum Association.



Exports have risen from 20% of production in 1960 to 40% in 1969 and are estimated to increase to 57% in 1980, and to 66% in 1990. It should be noted that this data selected from the National Energy Board forecast is the more liberal of the two forecasts they prepared. It assumes Canadian gas production from the Western Canada Sedimentary Basin and "frontier area" reserves.

Trunk Line's system and proposed extensions operate within the Western Canada Sedimentary Basin. The National Energy Board estimates the rate of growth in natural gas sales for this area at 5. 8% from 1966 to 1990.

Ultimate reserves of marketable gas for the province of Alberta have been estimated at 100 - 120 trillion cubic feet. The former figure is that adopted by the Alberta Oil and Gas Conservation Board, the latter estimate is that of the Canadian Petroleum Association. To date, initial marketable gas discovered amounts to 53. 2 trillion cubic feet. Total cumulative production of approximately 9 trillion cubic feet has reduced marketable reserves to 44. 3 trillion cubic feet. At the present time, therefore, only 44 - 53% of the province's estimated ultimate reserves have been discovered and of this quantity only 17% has been produced.

The search for undiscovered reserves has been accelerated recently as a result of the acute natural gas shortage in the United States. This has led to a continuing rise in demand for imports of Canadian gas.

Substantial exploration expenditures such as those undertaken in the Alberta Foothills have resulted in discoveries which have contributed considerably to the province's reserves. In 1969, the province experienced a net gain to reserves of 4.3 trillion cubic feet, the greatest net annual increase since 1964. In 1969, U.S. gas reserves fell by 12 trillion cubic feet as production swamped new reserves.

During the past decade, the U.S. reserves - life index has fallen from a 21 year to a 10 year supply based on current consumption rates according to the Federal Power Commission. The difficulties facing the U.S. natural gas industry have been attributed to the Federal Power Commission's pricing policies which have allegedly maintained such low well-head prices for inter-state gas that exploration has been inhibited. Nevertheless, even if the Federal Power Commission decides to adjust prices upwards, there would seem to be no possibility of a slackening in demand for Canadian gas. Estimates of the price increase needed to stimulate the necessary exploration have been set as high as \$0.10 - \$0.12 per mcf. In our judgement such an adjustment would not be politically acceptable. But even if it was enforced, consumers would be faced with the usual time lag between exploration and marketing which could be as long as five years. However, it is likely that by that time the continued growth in demand would require additional Canadian imports. Finally, given a choice between increasing imports of gas and changing to different energy sources, it is considered that in terms of pollution concerns the convenience and superior burning characteristics of natural gas will persuade the U.S. government to choose the former course of action.

The present impass between Canada and the United States on a common energy policy has been held by some as a possible obstacle to increasing exports of gas to the U.S. Cited in evidence has been the Canadian Minister of Energy's Denver speech which has been interpreted as meaning that if the U. S. restricts oil imports from Canada, retaliation in the form of gas export restrictions will be enforced. Such an interpretation is, in our opinion, mistaken; our view of the matter is that the Minister wished to convey that gas is quite often a by-product of oil exploration. Consequently, if the U.S. wishes to obtain the greatest amount of gas possible from Canada it can be done most effectively if incentive is furnished to all areas of hydrocarbon exploration, including oil. This would entail modifying the import controls. The National Energy Board will shortly be publishing its recommendations on five gas export applications presently before it. Part of the deliberations will include a review of Canadian policy towards exports including what provisions should be made for Canadian requirements. The National Energy Board recommendations will play a major role in shaping Canadian gas export public policy.

EXPANSION

As a result of the growing foreign and domestic demand, Trunk Line will be going through a rapid expansion. The Company has estimated that construction expenditures in 1970 will approximate \$89 million. We estimate Trunk Line will add approximately \$100 million in plant and facilities during 1971 and 1972. Consolidated Natural Gas Limited of Calgary, the Canadian subsidiary of Northern Natural Gas of Omaha, has received a permit from the Oil and Gas Conservation Board of Alberta to remove 1.535 trillion cu. ft. of natural gas from the province and has applied to the National Energy Board for permission to export this gas to the United States. Trunk Line will be required to construct additional

facilities costing approximately $27 million if Consolidated and its affiliates receive all the necessary regulatory approvals.

In early July Consolidated applied to the Alberta Oil and Gas Conservation Board to remove an additional 981 billion cu. ft. of natural gas over 25 years. Should this be approved, it would bring the removable total to 2. 516 trillion cu. ft. over 25 years. The potential impact of this additional application has not been included in our estimates.

In addition to this expansion programme, there are other developments which could require Trunk Line to substantially add to its rate base.

NORTHWARD EXPANSION

Trunk Line recently announced a proposal to build a $1. 5 billion pipeline to bring Arctic natural gas to North American markets. The text of the announcement stated, in part, "The Company expects that applications will be made later this year for certificates to build the line and to complete it in 1974 in time to transport natural gas produced when Prudhoe Bay crude oil begins to move through the planned Alaskan pipe line system.

The 48-inch line would follow a 1,550 mile route through Alaska, the Yukon, the Northwest Territories and Alberta, connecting with Alberta Gas Trunk's existing system. It would be capable of delivering Alaskan gas to United States markets and Canadian gas to Canadian markets. Alberta Gas Trunk has offered the service of the proposed system to all major Canadian and U. S. gas markets within economic range.

S. Robert Blair, Executive Vice-President of the Company stated that the equity in the Canadian portion of the pipe line would be held by Canadian investors. Under the terms of the proposal, equity ownership would remain under Canadian control.

Debt financing would be raised primarily in the U. S. capital markets, secured in the normal manner by tariff commitments obtained from United States utility companies interested in using the transport system to ship gas south.

The Company is initiating its own ecological studies and seeking participation in research groups studying the effect of pipe line construction in permafrost. Mr. Blair stated that Alberta Gas Trunk believes that its proposal provides the earliest and most economic pipeline connection for Alaska gas to multiple markets in terms of initial capital cost and over-all transportation costs.

The pipe line would consist of three sections. The Alberta section would consist of a 350 mile system to be financed and constructed before the end of 1972 at a capital cost of $100 million. This section would be operated by Alberta Gas Trunk or a subsidiary company and will be part of the orderly expansion of the present transmission system. An additional $200 million will be necessary to expand the Company's present

system in 1973 and 1974. The Northwest Territories-Yukon section would be a 900 mile main trunk to be financed and constructed in 1973 and 1974 by a federally incorporated company with powers to operate a natural gas pipe line.

Alberta Gas Trunk has purchased all of the outstanding shares of a company which has such powers. Other Canadian companies will be invited to participate on an equity basis in the federal company. After the project development period, Alberta Gas Trunk will retain a minority equity interest. Preliminary estimates indicate an ultimate capital investment within the northern territories of $1 billion. The Alaska section would be a 300 mile system to be financed and constructed in 1973 and 1974 and operated by a new Alaska corporation.

Mr. Blair said the proposed pipe line would generate substantial benefits to the northern territories in terms of long term employment for northerners, improved communication and air transport facilities, lower fuel costs and investment opportunities.

The three companies will be autonomous units but the entire gas trunk connection will operate as an integrated gas transport service for gas purchased in Alaska and in Canada by any company. There will be no discrimination or competitive restriction on the shipping companies, which will be served "first come first served". To maintain this character, there is to be no buying or selling of gas by the pipe line transport companies, except to accomplish ancillary operations such as local off-line supply arrangements or to a specifically limited extent if needed to achieve initial project feasibility. The service rendered by the Canadian and the Alberta transport companies is to be provided under published tariffs consistent with rate regulation under the respective jurisdictions.

A basic policy of the project is to construct the gas trunk main line in time to provide an outlet for very large volumes of solution gas produced from the Alaskan North Slope reserves in conjunction with crude oil production. Without markets the gas would be re-injected into the reservoir representing an economic loss. Estimated throughput of the proposed line will be one and a half billion cubic feet per day initially, increasing to about 3 billion cubic feet per day by 1980."

Trunk Line's existing pipeline system provides a natural base for such an expansion. The Company has some significant fundamental strengths to offer such a northward expansion, including one of the lower cost proposals; the inducement to exploration which is provided by a pipeline serving multiple buyers; the relative proximity of Trunk Line's main line facilities which have excess capacity; the economies which are available from Trunk Line's large scale of throughputs and the advantage of the central route of Trunk Line's main lines through the Sedimentary Basin which includes Alberta.

To date, Trunk Line has had policy discussions with industry and governments, prepared and distributed an introductory report on their proposal, conducted initial feasibility route and cost studies, commenced the basic pipe design, commenced an examination of ecological factors, begun negotiations and initiated initial and detailed engineer-design and route selection.

The attached System Map indicates the constuction schedule and principal physiographic features. We have superimposed the Western Canada Sedimentary Basin on this map.

SYSTEM MAP

TO INDICATE CONSTRUCTION SCHEDULE AND PRINCIPAL PHYSIOGRAPHIC FEATURES

COMPETITION

Proposals have been made to construct a natural gas pipeline to Prudhoe Bay by (1) Trunk Line, (2) Consolidated Natural Gas Limited, the Canadian subsidiary of Northern Natural Gas of Omaha, (3) Westcoast Transmission Company Limited, Bechtel Corporation and others, and (4) Trans-Canada Pipe Lines Limited. As a result of Trunk Line's announcement, Consolidated has dropped its proposal and is now supporting Trunk Line.

Trans-Canada has been exploring the feasibility of constructing a large diameter gas pipeline to the north since 1957. The most important and recent development was the joint announcement by Trans-Canada and five U.S. companies to undertake a $12 million feasibility study on the proposed line from Alaska to Emerson, Manitoba. The estimated cost of this proposal is approximately $2.5 billion with a target completion date of 1976. The participants (and their interests) are Trans-Canada (20%); Michigan Wisconsin Pipe Line Company of Detroit (15%) controlled by American Natural Gas; Natural Gas Pipeline Company of America, Chicago (15%) controlled by Peoples Gas; Atlantic Richfield Company of New York (16 2/3%); Humble Oil & Refining Company (16 2/3%) controlled by Standard Oil of New Jersey; and the Standard Oil Company of Ohio (16 2/3%). The announcement emphasized that the line will be a common carrier, transporting gas for other sellers and purchasers of gas, without regard to ownership of the line. The statement also indicated that the study agreement does not constitute a commitment of gas reserves held by the participants.

Westcoast has a 35% equity interest in the Mountain Pacific Pipeline Ltd. Westcoast stated in their 1970 annual report that Mountain Pacific "... is conducting preliminary engineering studies for a $1.2 billion pipeline project to deliver gas reserves now being developed in northern Canada and Alaska to markets in the west and mid-continental U.S. and southern Canada". It is proposed that the Mountain Pacific Pipeline will be built in two phases. In the first construction phase, costing an estimated $400 million, a 995 mile line will be built from Kingsgate, B.C. and will run northward inside the eastern boundary of B.C. to Fort Laird in the Northwest Territories. Gas deliveries should commence November 1, 1973, from this phase. The second phase of the project calls for a 1,000 mile extension of the line along the Northern Slope of Alaska. This extension is expected to be completed by 1978.

The Government of Alberta's Minister of Mines and Minerals, Hon. A. Patrick, recently issued a strong statement supporting Trunk Line's proposal. The release stated "In view of Alberta's historic role in Canada as the predominant supplier of natural gas for Canadian and export markets, the government of Alberta holds the strong view that any pipeline constructed for the transportation of natural gas from Alaska and northern Canada to Canadian and United States markets must pass through the province of Alberta and its gas producing territory." Oilweek reported Mr. Patrick felt that this type of project would appear to have the best chance of acceptance with the U.S. Federal Power Commission since they tend to favour projects which supply gas to the whole country rather than to specific regions.

The Hon. J. J. Greene, Federal Minister of Energy, Mines and Resources, delivered a policy statement in the course of a key-note speech at the recent annual meeting

of the Canadian Gas Association. Mr. Greene made it abundantly clear that only one line will be constructed when he stated "Capital cost of an Arctic Gas line will be so great, at a time when competition for capital is fierce, that only one such pipe line can be built in the next decade... The distances, the need for conservation of financial resources, the delicacy of the northern terrain, will dictate that only one system should be built." Observing that a number of proposals are being prepared, Mr. Greene stated "There must be a sorting out, and eventually a consolidation, of all this imagination and enterprise, in order that what is built may be what is best suited to the requirements of our time." He also explained that the traditional concept of major gas transmission systems owning the gas they transport might have to be modified in favour of a common carrier approach. The Arctic gas pipe line concept "opens up the need for many compromises, as well as accommodations on the part of individual companies and entrepreneurs. It also opens up the question as to what extent the new system would be a common carrier, cost of service pipe line. Would the major transmission systems, or major distribution systems, contract to buy the gas in the field and offer it on a long term basis to the carrier for delivery into their systems and thence carry it to market? Would the transmission systems and distribution systems own the new carrier or just the gas that is transported on their behalf?"

Mr. Greene went on to say "in the circumstances now arising our need would be better served by some form of contract carrier, even some limited form of common carrier. At this juncture in time the field of possibilities is very wide. No doubt there will be consolidation of thoughts on the projects which will result in specific proposals."

Mr. Greene's remarks indicate that whatever solution is finally achieved, it will reflect a compromise. It is highly probable that many of the initial participants will be involved in the final project. Given this assumption, we believe Trunk Line offers the investor the greatest probability of participation for a number of reasons.

Firstly, Trunk Line appears to have the only proposal designed to remove gas from the North Slope when major oil production starts in 1974. Prudhoe Bay wells must either have outlets for oil well solution gas, or reinject the gas back underground for future use. Secondly, the Oil and Gas Conservation Board, has included, as a condition on gas export permits that such gas be exported through Trunk Line's facilities. It would appear unlikely that this policy will change. The map indicates that in order to gather gas throughout the Western Canada Sedimentary Basin, Trunk Line must be included in the scheme. Thirdly, based on information publicly available, it would appear that Trunk Line has one of the lower cost proposals. Fourthly, Trunk Line has the clear support of the Alberta Government and its proposal most closely meets the requirements as set out in J. J. Greene's policy speech. Fifthly, as suggested by A. R. Patrick, the F.P.C. may tend to favour the Trunk Line proposal. Sixthly, Trans-Canada would still be involved in any Trunk Line scheme since it would carry the gas from Alberta to the U.S. Midwest distributors, whereas it is unlikely Trunk Line would be involved in any Trans-Canada proposal. Finally, Trunk Line appears to have moved quickly, effectively and with precision in entering discussions with all corporate and government bodies related to the project.

DIVERSIFICATION AND ACQUISITIONS

Trunk Line management has indicated a desire to look beyond the gas transportation business. They have indicated a willingness to consider investments in related fields that would provide an attractive rate of return to the shareholders and "fit" into their general area of operations.

Consistent with this policy, Trunk Line recently announced with Dominion Foundries and Steel, Limited the formation of a new company, International Portable Pipe Mills Ltd., to manufacture large-diameter oil and gas pipe line. The two companies will have a controlling interest in International Pipe with about 20% of the equity held by Sprung Mobile Pipe Corp. Ltd., a Vancouver company of pipe mill builders and consulting engineers. International Pipe plans to complete the construction of a portable pipe mill in Calgary by March or April next year. It is understood such a mill costs between $6.5 and $8.0 million.

The press release stated, "The mill, transported on a series of standard tandem trailers carrying up to 25 tons of payload, will produce pipe on the line site using roll forming and submerged melt welding by the wire fed process. The mill is to produce two miles a day of 48-inch diameter pipe and possibly could be extended to make 56-inch pipe."

We understand Dofasco views the new company as an investment only and due to production limitations will not be supplying the required plate.

Trunk Line has not specifically stated that International Pipe will supply any or all of its required pipe for expansion. This would, however, appear to be a motivating factor in the establishment of the company.

DILUTION

1,462,190 Class 'A' common shares were reserved at June 30, 1970, as follows:

	Shares
For conversion of the $5\frac{3}{8}$% Cumulative Redeemable Convertible Preferred Shares Series D until July 15, 1980, on an initial conversion basis of 2.80 Class 'A' common for each preferred share converted	528,290
For conversion of the $7\frac{1}{2}$% Convertible Sinking Fund Debentures Series 1 until July 15, 1982, on an initial conversion basis of 25 Class 'A' common shares for each $1,000 principal amount	875,000
Reserved for stock options (options outstanding - 20,500)	58,900
	1,462,190

This reflects a total potential dilution of 44%. We expect no significant conversion until after 1972 when the common dividend may be in excess of the dividend paid on the convertible preferred.

EARNINGS PROJECTION

At the present time, the cost of new long term debt exceeds the rate of return that Trunk Line presently earns on its rate base. Consequently, any expansion in its plant financed through debt must increase the embedded cost of capital (currently 7.1%) and result in a negative effect on earnings per share. Any financing done at rates below the rate of return provides a positive addition to earnings per share. This would include all preferred equity financing. In the current environment Trunk Line may increase its earnings per share through any one or combination of the following:

(a) an increase in the rate of return

(b) a decrease in the cost of debt money and/or

(c) an alteration in the method of calculating the rate of return on rate base.

Trunk Line's earnings are extremely stable and provide one of the major reasons for the attractiveness of the Company.

We have estimated Trunk Line's earnings potential on an $8\frac{3}{4}\%$ rate of return including and excluding the capital expenditures which may be required for Consolidated Natural Gas. Our assumptions and detailed estimates are set out in Appendix A. Our estimates are an indication of "potential" rather than a precise estimate since the number of variables is large and some, such as the proposed northern project, could have a dramatic impact on the calculations.

Undiluted Earnings per Share Potential

(A) Excluding Consolidated Natural Gas

Rate of Return	1970	1971	1972
$8\frac{3}{4}\%$	$2.71	$3.09	$3.22

(B) Including Consolidated Natural Gas

$8\frac{3}{4}\%$	$2.75	$3.03	$3.25

Fully diluted earnings are shown in Appendix A.

RECOMMENDATION

Trunk Line equity offers an opportunity to participate in the growth of the natural gas industry, to benefit from a strong management team, to possibly participate in a new gas pipe line to Alaska, and to benefit from any continued improvement in interest rates.

We recommend the purchase of the equity of Alberta Gas Trunk Line. We prefer the higher yielding, modest premium convertible instruments to the Class 'A' common at current levels.

APPENDIX A

THE ALBERTA GAS TRUNK LINE COMPANY LIMITED

Earnings Potential Forecast Assumptions

1. Rate of Return:

1970 Jan. 1 - June 30	8%
July 1 - Dec. 31	$8\frac{3}{4}$
1971	$8\frac{3}{4}$
1972	$8\frac{3}{4}$

2. Construction Programme:

Year	Construction	Interest Charged to Construction	Total	Including Consolidated	Total Including Consolidated
1970	$ 87,000	$2,000	$ 89,000	200	$ 89,200
1971	42,000	1,250	43,250	27,000	70,250
1972	37,000	1,000	38,000		38,000
	$166,000	$4,500	$170,250	27,200	$197,450

3. Capital Financing:

(a) Assuming $27 million is raised for Consolidated construction in the Fall of 1970:

Approximate Time	Type of Security	Amount (000)
1970 - Fall	$9\frac{1}{2}$% unsecured debentures	$ 20,000
1970 - Fall	$9\frac{1}{2}$% straight bonds (possibly placed in U.S.A.) Series E (for Consolidated construction)	27,000
1971 - Fall	9 - $9\frac{1}{2}$% bonds or debentures	15,000
	7% convertible preferred	15,000
1972	7% preferred shares	35,000
	Total	$112,000

3. (b) Assuming $27 million is not raised for Consolidated construction:

Approximate Time	Type of Security	Amount (000)
1970 - Fall	$9\frac{1}{2}$% unsecured debentures	$ 20,000
1971 - Fall	9 - $9\frac{1}{2}$% bonds or debentures	30,000
1972	7% preferred shares	35,000
	Total	$ 85,000

4. No capital requirements for the proposed northern project.

5. No equity commitment to the northern project.

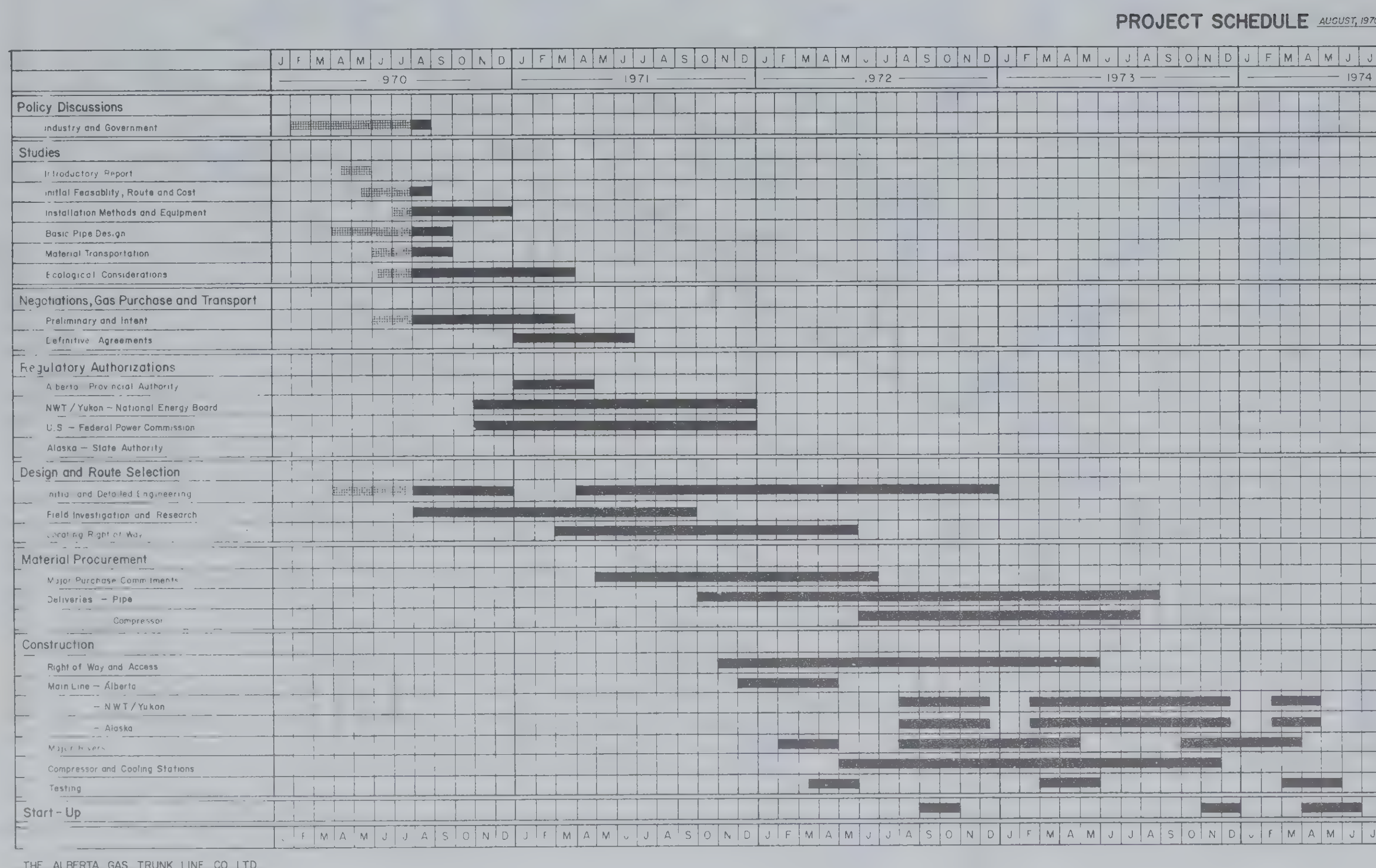
THE ALBERTA GAS TRUNK LINE COMPANY LIMITED

Earnings Potential 1970/72

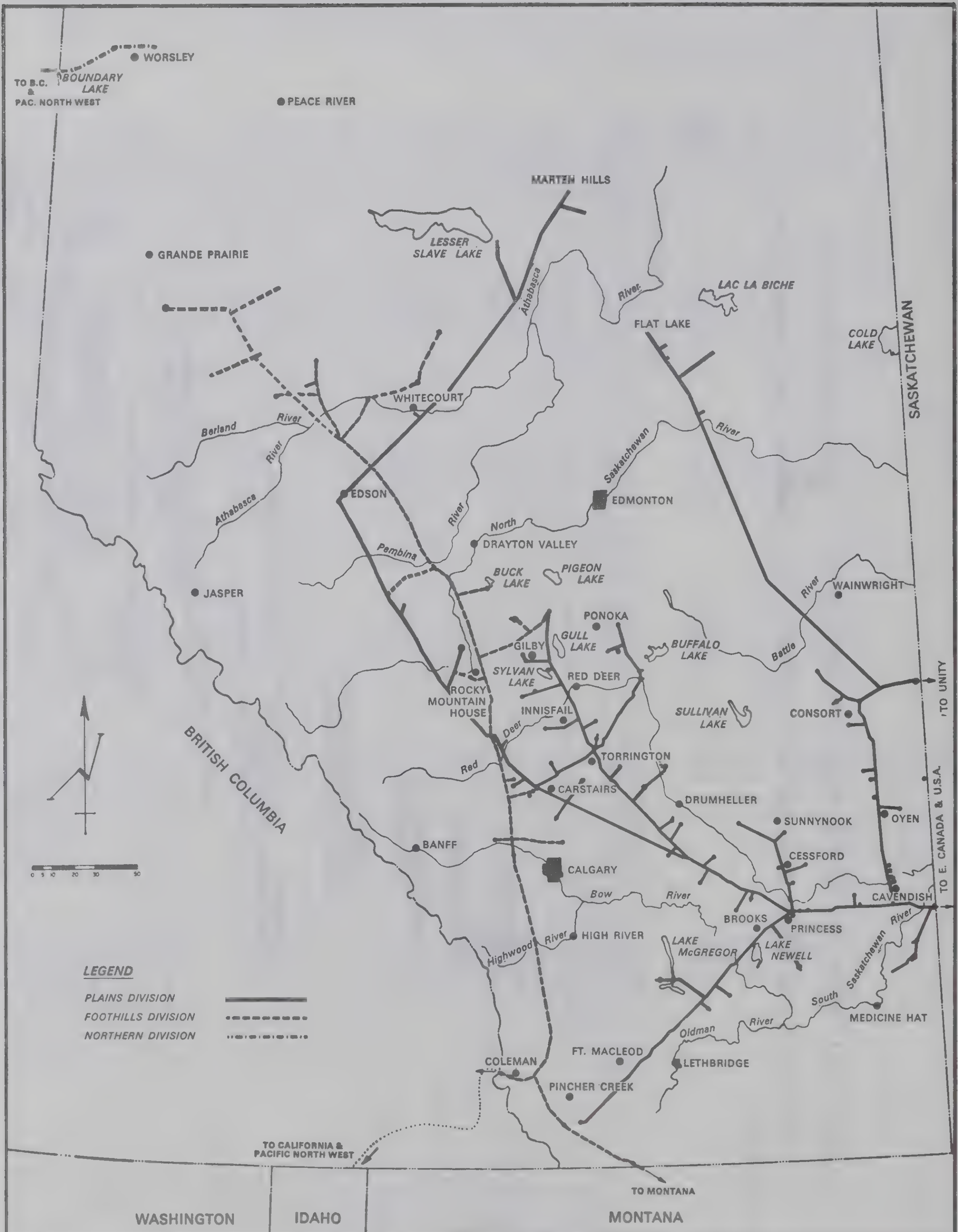
	8% 1969 Reported	8$\frac{3}{4}$% 1970 Excl. Cons.	8$\frac{3}{4}$% 1970 Incl. Cons.	8$\frac{3}{4}$% 1971 Excl. Cons.	8$\frac{3}{4}$% 1971 Incl. Cons.	8$\frac{3}{4}$% 1972 Excl. Cons.	8$\frac{3}{4}$% 1972 Incl. Cons.
Total Average Rate Base (Schedule)	212,713	294,000	294,000	360,000	387,000	393,000	420,000
Net Operating Income	17,017	24,623	24,623	31,500	33,863	34,388	36,750
Other Income	513	1,000	1,160	600	600	600	600
Gross Income	17,530	25,623	25,783	32,100	34,463	34,988	37,350
Income Deductions							
Interest on First Mortgage Bonds							
Series A, B and C	4,997	4,732	4,732	4,448	4,448	4,143	4,143
Series D	412	4,595	4,595	5,665	5,665	5,605	5,605
Series E	-	-	214	-	2,565	-	2,565
Series F	-	-	-	463	231	2,775	1,388
Interest on Secured Debentures Series A and B	2,245	2,220	2,220	2,175	2,175	2,130	2,130
Interest on Unsecured Debentures							
Series 1	-	2,406	2,406	2,625	2,625	2,625	2,625
Series 2	-	1,056	1,056	1,950	1,950	1,950	1,950
Series 3	-	317	317	1,900	1,900	1,900	1,900
Interest on Short Term Loans	1,800	750	750	1,300	1,300	800	800
Amortization of Debt Discount and Expense	213	350	360	400	450	440	490
Interest During Construction	(2,006)	(2,000)	(2,200)	(1,250)	(1,250)	(1,000)	(1,000)
Total Income Deductions	-	14,426	14,450	19,676	22,059	21,368	22,596
Net Income	-	11,197	11,333	12,424	12,404	13,620	14,754
Less Preferred Dividends							
Series C 4$\frac{3}{4}$%	1,225	1,177	1,177	1,117	1,117	1,057	1,057
Series D 5$\frac{3}{8}$%	1,055	1,028	1,028	1,028	1,028	1,028	1,028
Series E 7%	-	-	-	-	175	-	1,050
Series F 7%	-	-	-	-	-	817	817
	2,280	2,205	2,205	2,145	2,320	2,902	3,952
Net Income Available for Common	7,540	8,992	9,128	10,279	10,084	10,718	10,802
Class 'A' Common Outstanding (000)	3,324	3,324	3,324	3,324	3,324	3,324	3,324
Earnings per Share	$2.27	$2.71	$2.75	$3.09	$3.03	$3.22	$3.25
Earnings per Share - Fully Diluted	2.21	2.59	2.62	2.91	2.87	3.00	3.02

Appendix B

CRITICAL PATH SCHEDULE FOR CONSTRUCTION OF BIG-INCH GAS LINE ACROSS CANADA FROM ALASKA AS PROPOSED BY ALBERTA GAS TRUNK LINE



Appendix C

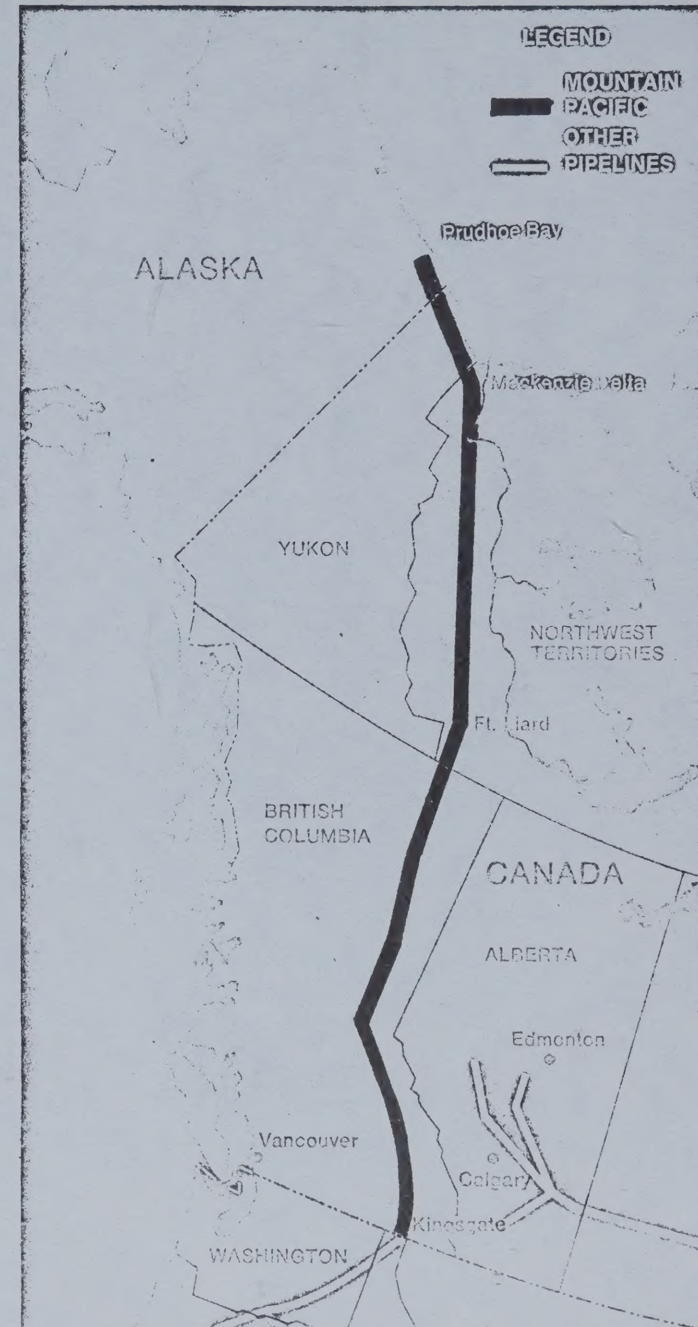


THE ALBERTA GAS TRUNK LINE COMPANY LIMITED
PIPE LINE SYSTEM
April, 1970

Appendix D

TRANSCANADA NORTHWEST PROJECT

WESTCOAST MOUNTAIN PACIFIC PROJECT



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